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How to Ruin a Public Sector Institution

There has been no dearth of news about the poor finances of Air India, India's "national" carrier and once upon a time a public institution to be proud of. But it is the Comptroller and Auditor General's (CAG) performance audit report, which has been tabled in Parliament, that lays bare the full extent of faulty planning, ad hoc decision-making and inexplicable giveaways that have brought the airline to the edge of ruin.

Consider the aircraft acquisition order. The then independent international carrier Air India had been looking since 1996 at modernising its fleet. The slow pace of government decision-making meant that in early 2004 its proposal for 28 new aircraft had still not been finalised. But the government, when it wants to (or when special interests are at play?), can move rapidly. According to the CAG, in November 2004 this had grown into a proposal of as many as 68 aircraft; in December 2005 the government awarded the contract to Boeing of the United States. Note that this was a firm order – no question of a part firm order and part options, which is the standard practice and would have given Air India the freedom to reduce its purchases if



market conditions or its finances changed. Note also that there was no evidence of any dramatic change in market opportunities for Air India to justify such a large purchase. What was going on in the minds of the minister in charge and the members of the union cabinet when they took this decision? It is relevant that the (enlarged) order for 68 aircraft with the US company was placed at a time of intensive discussions between India and the US on defence and nuclear cooperation and that the US transportation secretary visited New Delhi a few weeks before the cabinet decision. Such are the factors at play when our political masters toy with public institutions. If Airbus was unhappy at being given short shrift in the Air India order, it was not to be disappointed. In February 2006, Indian Airlines ordered 43 aircraft from the European consortium. The domestic airlines proposal had been hanging fire since 2001 but like in the case of Air India, speed suddenly became a matter of import.



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